



Testimony of the Connecticut Association of Health Plans

Quality is Our Bottom Line **Before the Finance, Revenue and Bonding Committee**

February 9, 2009

Regarding House Bill 6349, *An Act Concerning the Sales Tax on Services*

The Connecticut Association of Health Plans ("CTAHP") respectfully submits the following testimony to express its opposition to House Bill 6349, which would repeal the existing exemption from the application of the Connecticut state sales tax on the delivery of insurance services. Recognizing the daunting economic forecast and escalating budget deficit, the member plans of the CTAHP would like to express their concern for what we believe the bill portends to do, namely tax the same transaction twice.

As you are aware, the business transaction of the sale of a health insurance policy is presently taxed in accordance with C.G.S. Section 12-202, the tax on net direct premiums of domestic insurance policies. The member plans of the CTAHP respectfully request that the Finance, Revenue and Bonding Committee reject House Bill 6349 because it would result in double taxation, further exacerbating the cost of health care. We hope that an equitable solution can be achieved and stand ready to be a resource to the committee as it pursues a balanced and fair approach to increasing revenue to the state.

The Connecticut Association of Health Plans is comprised of Aetna, Cigna, Community Health Network of Connecticut, Inc., Connecticare, Health Net, Oxford Health Care and United Healthcare.

Sec. 12-202. Tax on net direct premiums of domestic insurance companies. Each domestic insurance company shall, annually, pay a tax on the total net direct premiums received by such company during the calendar year next preceding from policies written on property or risks located or resident in this state. The rate of tax on all net direct insurance premiums received on and after January 1, 1995, shall be one and three-quarters per cent. The franchise tax imposed under this section on premium income for the privilege of doing business in the state is in addition to the tax imposed under chapter 208. In the case of any local domestic insurance company the admitted assets of which as of the end of an income year do not exceed ninety-five million dollars, eighty per cent of the tax paid by such company under chapter 208 during such income year reduced by any refunds of taxes paid by such company and granted under said chapter within such income year and eighty per cent of the assessment paid by such company under section 38a-48 during such income year shall be allowed as a credit in the determination of the tax under this chapter payable with respect to total net direct premiums received during such income year, provided that these two credits shall not reduce the tax under this chapter to less than zero, and provided further in the case of a local domestic insurance company which is a member of an insurance holding company system, as defined in section 38a-129, these credits shall apply if the total admitted assets of the local domestic insurance company and its affiliates, as defined in said section, do not exceed two hundred fifty million dollars or, in the alternative, in the case of a local domestic insurance company which is a member of an insurance holding company system, as defined in section 38a-129, these credits shall apply only if total direct written premiums are derived from policies issued or delivered in Connecticut, on risk located in Connecticut and, as of the end of the income year the company and its affiliates have admitted assets minus unpaid losses and loss adjustment expenses that are also discounted for federal and state tax purposes and which for said local domestic insurance company and its affiliates, as defined in said section do

not exceed two hundred fifty million dollars. (1949 Rev., S. 1884; 1953, S. 1083d; 1957, P.A. 115; 1959, P.A. 140, S. 1; 1961, P.A. 604, S. 1; 1972, P.A. 285, S. 9; P.A. 73-350, S. 2, 27; P.A. 74-269, S. 1, 2; P.A. 80-482, S. 341, 348; P.A. 90-28, S. 6; 90-333, S. 4; P.A. 93-74, S. 4, 67; May Sp. Sess. P.A. 94-4, S. 4, 5, 85; P.A. 95-160, S. 64, 69; 95-303, S. 1, 3.)

History: 1959 act imposed tax for years 1961, 1962 and 1963; 1961 act changed the rate payable on net direct life insurance premiums from 1 3/4% to 2 1/2%, and increased the rate on other net direct premiums from 2% to 2 3/4%, deleted obsolete references to taxes payable in past years, and stated that franchise tax is in addition to excise tax imposed under Sec. 12-203 of 1959 Supplement; 1972 act made two and one-half per cent rate applicable to net direct insurance premiums received before July 1, 1973, and established two per cent rate on net direct premiums received on and after that date; P.A. 73-350 deleted tax on total net direct annuity considerations, stated that franchise tax is in addition to tax imposed under chapter 208 and added provisions re tax credits for local domestic insurance companies, effective May 9, 1973, and applicable to income years beginning on or after January 1, 1973; P.A. 74-269 substituted "paid" for "payable" in tax credit provision, reduced eighty per cent credit by "any refunds of taxes paid by such company and granted under said chapter (208) for such income year" and specified that credit is applicable to tax "payable with respect to total net direct premiums received during such income year", effective May 29, 1974, and applicable to tax payable on premiums received after December 31, 1972; P.A. 80-482 made credit applicable to companies with assets not exceeding seventy-five rather than fifty million dollars, included new eighty per cent credit for assessments paid under Sec. 38-53b, limited credits so that tax not reduced to less than zero and limited credits to companies which are members of a holding company system to companies with assets not exceeding one hundred fifty rather than one hundred million dollars; P.A. 90-28 deleted reference to a tax

on investment income imposed under repealed Sec. 12-203; P.A. 90-333 increased the maximum amount of assets with respect to which a company may be allowed the tax credit provided under this section from seventy-five to ninety-five million dollars and in the case of an insurance holding company system such maximum with respect to the affiliated companies is increased from one hundred fifty to one hundred seventy-five million dollars; P.A. 93-74 increased the maximum amount of assets with respect to which an affiliated company may be allowed the tax credit provided under this section from one hundred seventy-five million to two million dollars, effective May 19, 1993, and applicable to taxable years commencing January 1, 1993; May Sp. Sess. P.A. 94-4 increased the maximum amount of assets with respect to which an insurance holding company may be allowed the tax credit provided under section from two hundred million to two hundred fifty million, effective June 9, 1994, and applicable to taxable years commencing on or after January 1, 1994; and also deleted obsolete provisions and decreased the rate of tax on net direct premiums from two per cent to one and three-quarters per cent, effective January 1, 1995, and applicable to premiums due on or after said date; P.A. 95-160 revised effective date of May Sp. Sess. P.A. 94-4 but without affecting this section; P.A. 95-303 added alternative re application to companies with total direct written premiums derived from policies issued or delivered in Connecticut on risk located in Connecticut having admitted assets minus unpaid losses and loss adjustment expenses which do not exceed two hundred fifty million dollars, effective July 6, 1995, and applicable to taxable years commencing on or after January 1, 1996.
Cited. 16 CS 134.